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INNOVATORS IN MILESTONES, INC.

Audit of Financial Statements

June 30, 2005

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 2-15-06

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Innovators in Milestones, Inc.

We have audited the accompanying statement of financial position of Innovators in Milestones, Inc. (a non-profit corporation) as of June 30, 2005 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of Innovators in Milestones, Inc. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Innovators in Milestones, Inc. as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2006 on our consideration of Innovators in Milestones, Inc.'s internal control over financial reporting and our tests of its compliance with certain

provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Innovators in Milestones, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Hienz & Macaluso, LLC". The signature is written in a cursive, flowing style.

HIENZ & MACALUSO, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Metairie, LA
January 20, 2006

INNOVATORS IN MILESTONES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005

ASSETS

Current Assets		
Cash	\$	49,948
Grants receivable		236,476
Other receivables		8,218
Prepaid expenses		2,209
Total current assets		<u>296,851</u>
Property and Equipment		
Furniture and equipment		77,537
Less accumulated depreciation		<u>(23,550)</u>
Net property, plant and equipment		<u>53,987</u>
Noncurrent Assets		
Other assets		<u>11,725</u>
Total noncurrent assets		<u>11,725</u>
Total assets	\$	<u><u>362,563</u></u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$	23,130
Accrued salaries and payroll liabilities		110,400
Management fees payable		73,063
Deferred revenues		<u>5,743</u>
Total liabilities		<u>212,336</u>
Net assets - unrestricted		<u>150,227</u>
Total liabilities and net assets	\$	<u><u>362,563</u></u>

The accompanying notes are an integral part of these financial statements.

**INNOVATORS IN MILESTONES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

REVENUES

State public school funding	\$ 2,378,098
Other state funding	36,378
Federal Sources	628,041
Other income	40,690
Total revenues	<u>3,083,207</u>

EXPENSES

Instruction:	
Regular education programs	1,312,718
Special education programs	154,468
Other instructional programs	22,844
Support Services:	
Pupil support services	136,773
Instructional staff services	72,789
School administration	311,011
Business services	245,842
Operation and maintenance	488,073
Student transportation service	820
Central services	7,050
Food services	155,785
Depreciation	19,996
Total expenses	<u>2,928,169</u>
Change in net assets	155,038
Net assets, beginning of year	<u>(4,811)</u>
Net assets, end of year	<u>\$ 150,227</u>

The accompanying notes are an integral part of these financial statements.

INNOVATORS IN MILESTONES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

Cash flows from operating activities	
Increase in net assets	\$ 155,038
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	19,996
Decrease in grants receivable	5,946
(Increase) in prepaid expenses	(1,185)
(Increase) in other assets	(11,724)
Decrease in accounts payable	(2,559)
Decrease in management fees payable	(76,412)
Increase in accrued salaries and payroll liabilities	4,022
Increase in deferred revenues	5,743
	<hr/>
Total adjustments	98,865
Net cash provided by operating activities	253,903
Cash flows from investing activities:	
Purchase of fixed assets	(49,205)
	<hr/>
Net cash flows used by investing activities	(49,205)
NET INCREASE IN CASH AND CASH EQUIVALENTS	49,660
Cash and cash equivalents at the beginning of the year	288
Cash and cash equivalents at the end of the year	<u>\$ 49,948</u>

The accompanying notes are an integral part of these financial statements.

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – Nature of Operations:

Innovator's in Milestones, Inc., a not-for-profit corporation, (Milestone) was formed in August of 1998 in New Orleans, Louisiana. Milestone has been dormant since inception through July 1, 2003. Milestone's stated purpose is to:

- Improve student learning
- Increase learning opportunities and admittance to quality education for all students
- Encourage the use of inventive teaching methods and a variety of governance, management and administrative structures
- Be meticulously accountable for educational results
- Create new professional opportunities for teachers and other school employees

On August 9, 2003, Milestone's reconstituted charter was approved for one year by the Louisiana State Board of Elementary and Secondary Education (BESE), authorized by LA Charter School Demonstration Project, to operate an independent public school, Milestone SABIS Academy of New Orleans (the School). The charter was valid through June 30, 2004, subject to renewal by BESE after that date (See Note 6).

The School operates as a Type II charter school as defined in LSA R.S. 17:3971, et. seq. The School serves eligible students in grades kindergarten through eighth grade in the parish of Orleans with approximately 372 students

On July 7, 2003 Milestone engaged New Orleans Education Management, LLC (NOEM) to provide educational and other services to and on behalf of Milestone and the School in accordance with provisions of the Charter School Laws and any other applicable laws and regulations. Under the referenced agreement NOEM is responsible for the day-to-day operations of the School and the education of all students enrolled in the School. Compensation under this agreement amounts to a license fee of 6% of revenue and a management fee of 8% of revenue (revenue for this calculation does not include grants, donations or gifts). The term of this agreement is for five years commencing with the date of execution of the agreement and terminating June 30, 2008 subject to the renewal of the charter and provisions of the Charter School Laws and Regulations and any and all other applicable federal and state laws and regulations.

Furthermore, in the management contract with NOEM, Milestone agrees that in the event that no surplus of funds remains from the per-pupil funding or other revenues, after all expenses of the School have been paid, NOEM will not cover these deficits.

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – Nature of Operations (continued):

The management contract further states that in the event of a projected deficit, NOEM may, in its sole discretion, provide financing to Milestone provided that both parties agree to terms of such financing and further provided that such financing will be re-paid from future surplus.

NOTE 2 – Summary of Significant Accounting Policies:

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of Milestone are prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

The financial statements are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made", and in accordance with SFAS No. 117, "Financial Statements of Not-for-Profit Organizations". SFAS No. 116 requires that unconditional promises to give (pledges) be recorded as receivables and revenues and requires Milestone to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Under SFAS No. 117, Milestone is required to report information regarding its financial position and activities according to three classes of net assets:

- ❖ Unrestricted Net Assets
- ❖ Temporarily Restricted Net Assets
- ❖ Permanently Restricted Net Assets

In addition, Milestone is required to present a statement of cash flows. At June 30, 2005, Milestone has neither temporarily nor permanently restricted net assets.

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2 – Summary of Significant Accounting Policies (continued):

Fair Value of Financial Instruments

The estimated fair value of all significant financial statement amounts have been determined by Milestone using available market information and appropriate valuation methodologies.

Milestone considers the carrying amount of cash, to approximate fair value.

Promises to Give

Contributions are recognized when the donor makes a promise to give to Milestone, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. For the year ended June 30, 2005 Milestone has not recorded promises to give.

Minimum Foundation Program (MFP)

Milestone receives funding from BESE in an amount for pupils based on estimated daily attendance in the School. The amount of funding received is adjusted during the school year based on the October 1st student count, the February 15th student count and the results of any audits performed.

Other Funding

Other revenues received by Milestone consist of private and public grants, summer school and extended day revenue.

Functional Allocation of Expenses

The cost of providing the various programs and other activities have been summarized on a functional basis in the statement of revenues, expenses, and change in fund net assets. Accordingly, certain costs have been allocated among instructional and support services in the accompanying statement of revenues, expenses, and change in fund net assets.

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2 – Summary of Significant Accounting Policies (continued):

Statement of Cash Flows

For purposes of the statement of cash flows, Milestone considers all investments with original maturities of three months or less to be cash equivalents. At June 30, 2005, Milestone had no cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

Milestone operates as a nonprofit entity and has been granted tax-exempt status under an advance ruling period by the Internal Revenue Service (IRS) under Section 501(c)(3) of the Internal Revenue Code and is therefore exempt from federal and state income taxes.

At June 30, 2003, Milestone's advance ruling period ended. The IRS subsequently determined that since Milestone was dormant during the advance ruling period (thereby receiving no public support) it would be classified as a "private foundation." Milestone filed form 990-PF, Return of Private Foundation, for fiscal years ended June 30, 2003, 2004 and 2005.

Milestone applied with the IRS for termination of the "private foundation" status and for a new five year advance ruling period to be classified as a "publicly supported organization" or "public charity." That application was approved by the IRS on July 6, 2005, to become effective as of July 1, 2005. The IRS terminated Milestone's private foundation status as of July 1, 2005 and determined it should be treated as a "public charity" subject to a new five year (60 month) advance ruling period which ends June 30, 2010.

Receivables:

Milestone considers grants receivable to be fully collectible since the balance primarily consists of payments due under government contracts (federal and state grants). If amounts due become uncollectible, they will be charged to operations when that determination is made.

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2 – Summary of Significant Accounting Policies (continued):

Property and Equipment

Property and equipment include furniture and equipment costing \$ 200 or more, and having a useful life greater than one year. Depreciation is computed using the straight-line method over the asset's estimated life. The following are the estimated useful lives of property and equipment:

	<u>Useful Lives</u>
Furniture and fixtures	7 years
Security equipment	4 years
Kitchen equipment	3 years
Computer equipment	3 years

NOTE 3 – Cash:

At June 30, 2005, Milestone's cash balance consists of the following:

Demand deposits	<u>\$ 49,948</u>
-----------------	------------------

NOTE 4 – Risk Management:

Milestone is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets for which Milestone carries commercial insurance, covering the School's operation only. During the year ended June 30, 2005, the Board of Directors was covered with officers' and directors' insurance, which was part of its professional liability policy listed below. As of June 30, 2005 Milestone had the following insurance policies in effect (note all policies were renewed upon expiration):

<u>Type of Coverage</u>	<u>Expiration</u>	<u>Coverage Limits</u>
General liability	July 1, 2005	Aggregate \$ 2,000,000 Each occurrence \$ 1,000,000 Injury \$ 1,000,000
Automotive	July 1, 2005	Combined \$ 1,000,000
Professional liability	August 1, 2005	Combined \$ 2,000,000 Deductible \$ 25,000
Property	July 1, 2005	Contents \$ 500,000 90 % Co-insurance
Workman's Compensation	September 11, 2005	Statutory

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 4 – Risk Management (continued):

Liabilities are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated. There was no amount recorded in the financial statements for a potential loss.

NOTE 5 – Concentrations:

Milestone maintains cash balances at two local banks. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. From time to time throughout the year these balances exceed amounts covered by the FDIC. As of June 30, 2005 Milestone's bank balances did not exceed amounts covered by the FDIC.

Milestone receives primarily all of its revenues from the State of Louisiana subject to its charter agreement with the State. Milestone also receives funding from various other federal, state and local sources. A significant reduction in the level of this funding from the State of Louisiana and other sources could impact Milestone's operations and programs. See Note 2 for additional discussion.

NOTE 6 – Contingencies and Commitments:

Milestone is a recipient of funding from BESE through the State of Louisiana's Minimum Foundation Program. This funding is governed by various guidelines, regulations and contractual agreements. The administration of the programs and activities funded is under the control and administration of Milestone and is subject to audit and/or review by the applicable funding source. Any funds found to be not properly spent in accordance with the terms, conditions and regulations of the funding sources may be subject to recapture.

As of January 20, 2006, Milestone has not received its renewed charter contract with BESE and the Louisiana Department of Education (LDOE). Milestone's current charter expired on June 30, 2004. However, Milestone operated as a charter school during the 2004-2005 school year and is operating as a charter school during the 2005-2006 school year, and through the date of this report has received its monthly funding from BESE through the State of Louisiana's Minimum Foundation Program.

See Note 10 (NOEM Contract) for discussion of management and license fees and related liabilities for those fees due to NOEM.

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 7: Leases:

Milestone leases its facility and equipment and other school property under two leases with Springfield Property Management LLC (Springfield). The first lease is for personal property in connection with the operation of the School is effective July 1, 2003. The lease is effective for four years through July 1, 2007. At the end of this term the lessor has an option to renew the lease for an additional three years by giving Milestone written notice of its intent at least thirty days prior. Milestone's monthly lease payments are \$ 2,333.33.

The second lease is for the School facility located at 5951 Patton Street in New Orleans, Louisiana. This lease is effective as of July 1, 2003 and extends through May 29, 2007. Springfield has executed the lease with the owners of the property and is sub-leasing the facility to Milestone. Upon expiration of this lease the owners have the option to renew the lease with Springfield. If this should occur, Milestone will have an option to renew the lease for a term of five years. Base rents under the new lease would be calculated using the current lease amounts and adjusted based on changes in the "Consumer Price Index for all Urban Consumers".

Rents paid under the facility lease are determined based on the following:

1. Monthly leasehold payment of \$ 5,280.33 (\$ 63,364 per year)
2. An additional amount per month as follows:

<u>School Year</u>	<u>Monthly rent payment</u>
2004-2005	\$ 19,984.49
2005-2006	\$ 20,126.52
2006-2007	\$ 20,320.04

Total lease expense amounted to \$ 331,178 for the year ended June 30, 2005.

The minimum future lease payments under the above leases are as follows:

<u>Fiscal Year End</u>	<u>Lease Commitment</u>
June 30, 2006	\$ 332,882
June 30, 2007	<u>\$ 314,884</u>
Total	<u>\$ 647,766</u>

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 8: Grants Receivable:

Milestone's grants receivable as reported on the Statement of Financial Position consist of the following as of June 30, 2005:

LEAP 21 Tutoring	\$ 1,077
Special Education IDEA Part B	21,831
Special Education IDEA	29,286
U.S. Department of Education Grants:	
Title I	179,844
Title II	1,303
Title V	2,479
State of Louisiana child care	66
Extended School Year Program	<u>590</u>
 Total grants receivable	 <u><u>\$ 236,476</u></u>

NOTE 9: Property and Equipment:

Milestone's property and equipment as reported in the Statement of Financial Position as of June 30, 2005 is listed below:

	<u>July 1, 2004</u>		<u>Additions</u>		<u>Deletions</u>		<u>June 30, 2005</u>
Furniture & fixtures	\$ 7,886	\$	6,712	\$	-	\$	14,598
Security equipment	5,020		6,279		-		11,299
Kitchen equipment	2,566		683		-		3,249
Computer equipment	12,860		35,531		-		48,391
Less: Accumulated Depreciation	<u>(3,554)</u>		<u>(19,996)</u>		<u>-</u>		<u>(23,550)</u>
	<u>\$ 24,778</u>	\$	<u>29,209</u>	\$	<u>-</u>	\$	<u>53,987</u>

Depreciation expense for the year ended June 30, 2005 amounted to \$ 19,996.

All assets acquired with Department of Education funds are owned by Milestone while used in the purpose for which it was purchased. The Department of Education, however, has a reversionary interest in these assets. Should the charter not be renewed, title in any assets purchased with these funds will transfer to the appropriate agency.

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 10: NOEM Contract:

As discussed in Note 1 to the financial statements Milestone has a management contract with NOEM. For the year ended June 30, 2005 Milestone incurred expenses for management fees under this contract in the amount of \$ 190,248 (representing 8% of State Public School Funding). At June 30, 2005 Milestone owed NOEM \$ 73,063 for management fees under that contract for the year ended June 30, 2005, which is reflected in the Statement of Financial Position. As previously discussed in Note 1 to the financial statements the contract with NOEM states that this liability will be re-paid from future surplus of the School, and not by NOEM, unless financing arrangements can be made.

For the year ended June 30, 2005 Milestone also incurred expenses for a license fee, under the same contract with NOEM, in the amount of \$ 142,686 (representing 6% of State Public School Funding). At June 30, 2005 Milestone owed NOEM \$ 0 for the license fee under that contract for the year ended June 30, 2005.

NOTE 11: Annual Financial Report Reconciliation:

Milestone was granted an extension of time for the submission of its Annual Financial Report (AFR) to the Louisiana Department of Education for the year ended June 30, 2005. Since the AFR was not completed as of the date of our report there is no reconciliation between total expenses reported on the AFR and total expenses presented in these financial statements.

NOTE 12: Board member's Compensation:

Board members are not compensated for their service, therefore a schedule of board members and compensation is not presented.

NOTE 13: Retirement Plan (401 (k) Plan:

On April 1, 2005 Milestone implemented its 401 (k) plan (the Plan) with an effective date of January 1, 2005. Employees must be at least age 21 and have one year of service or 1,000 hours of service to become eligible to participate in the Plan. Participants may contribute between 1% and 75% (elective deferrals) of eligible earnings on a pre-tax basis to participant directed accounts. Each year Milestone will make a matching contribution equal to 20% of a participant's elective deferrals, however Milestone will not match elective deferrals that exceed 6% of a participant's eligible earnings. The Plan operates on a calendar year end. Participants and other employees should refer to the Plan document for more detailed information regarding the Plan and Plan requirements. For the year ended June 30, 2005 Milestone recorded retirement expense in the amount of \$ 1,288.

INNOVATORS IN MILESTONES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 14: Subsequent Event:

On August 29, 2005 the City of New Orleans, where Milestone is located, suffered significant flooding and damage due to hurricane Katrina. Milestone's facilities and equipment were not damaged as a result of the hurricane. However, Milestone was closed for two and one-half months after the hurricane due to widespread catastrophic damage to New Orleans and the surrounding areas. Milestone re-opened on November 14, 2005, with significantly less students. As of the date of this report Milestone's student population had recovered to approximately 80% of its June 30, 2005 enrollment.

Milestone's Management feels that as the citizens of the New Orleans area return, enrollment will continue to increase. Milestone has managed costs by adjusting personnel to the current level of enrollment. Therefore decreases in funding due to fewer students have been offset by a decrease in expenses. Milestone expects enrollment to continue to increase through the end of this school year and anticipates its student population will return to pre-Katrina levels by the beginning of the 2006-2007 school year.

INNOVATORS IN MILESTONES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Program Title/General Ledger	Federal CFDA Number	Agency Contract Number	Federal Expenditures	Totals
<u>U.S. DEPARTMENT OF EDUCATION:</u>				
Passed through the Louisiana Department of Education				
Title I, Part A				
Title I Grant Income VI *	84.010	S010A030018	\$ 89,084	
Title I V2 *	84.010	S010A040018	<u>266,823</u>	
Total Title I				\$ 355,907
Title II, Part A				
Title II Eisenhower Prof Dev	84.367	S367B030017	9,819	
Title II V2	84.367	S367A040017	<u>12,722</u>	
Total Title II				22,541
Title IV				
Title IV Safe & Drug Free	84.186	S186A030019	2,437	
Title IV V2	84.186	Q186A040019	<u>2,710</u>	
Total Title IV				5,147
Title V				
Title V - Innov Ed Prog Strat V2	84.298	S298A040018	<u>926</u>	
Total Title V				926
Enhancing Education through Technology				
EETT Grant Income VI	84.318	S318X030018	7,085	
EETT V2 income	84.318	S318X040018	<u>7,449</u>	
Total EETT				14,534
IDEA Part B-Special Education				
Special Education IDEA - Part B	84.027	H027A030033	38,106	
IDEA Part B Carryover	84.027	2803B1A8	1,598	
IDEA Supplemental Grant	84.027	H027A020033	31,678	
IDEA Pt B V2	84.027	H027A040033	<u>20,272</u>	
Total IDEA				91,654
Total U.S. Department of Education Passed through Louisiana Department of Revenue				<u><u>490,709</u></u>
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>				
Passed through the Louisiana Department of Education				
School Breakfast	10.553	05-SFS-113A	15,385	
National School Lunch	10.555	05-SFS-113A	<u>114,271</u>	
Total food service				129,656
Entitlement Commodities				
Value of USDA commodities	10.550	none	<u>\$ 7,676</u>	
Total entitlement commodities				7,676
Total U.S. Department of Agriculture Passed through Louisiana Department of Revenue				<u><u>137,332</u></u>
Total expenditures of federal awards				<u><u>\$ 628,041</u></u>

* Indicates a major program

INNOVATORS IN MILESTONES, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE A – Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Innovators in Milestones, Inc. (Milestone) and is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE B – Sub-recipients:

Milestone has not provided federal awards to sub-recipients.

NOTE C – Reconciliation of Federal Award Expenditures:

The amount of expenditures of federal awards was \$ 628,041 for the year ended June 30, 2005, as was reported in the schedule of expenditures of federal awards. The amount of federal revenues reported in Milestone's financial statements was \$ 628,041.

NOTE D – Food donation:

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.



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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*

To the Board of Directors of
Innovators in Milestones, Inc.

We have audited the financial statements of Innovators in Milestones, Inc., (an nonprofit corporation) as of and for the year ended June 30, 2005 and have issued our report thereon dated January 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Innovators in Milestones, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

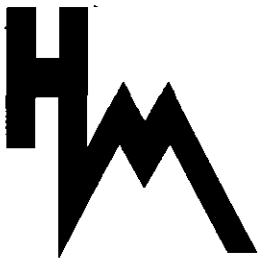
As part of obtaining reasonable assurance about whether Innovators in Milestones, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, BESE, federal awarding agencies and pass-through entities and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor for the State of Louisiana as a public document.

A handwritten signature in black ink that reads "Hienz & Macaluso, LLC". The signature is written in a cursive, flowing style.

HIENZ & MACALUSO, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Metairie, LA
January 20, 2006



HIENZ & MACALUSO, L.L.C.

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**Independent Auditor's Report on Compliance with Requirements
Applicable to each Major Program and on Internal Control over Compliance
In Accordance With OMB Circular A-133**

To the Board of Directors of
Innovators in Milestones, Inc.

Compliance

We have audited the compliance of Innovators in Milestones, Inc. (a nonprofit corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Innovators in Milestones, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Innovators in Milestones, Inc.'s management. Our responsibility is to express an opinion on Innovators in Milestones, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Innovators in Milestones, Inc.'s compliance with those

requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Innovators in Milestones, Inc.'s compliance with those requirements.

In our opinion, Innovators in Milestones, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control over Compliance

The management of Innovators in Milestones, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Innovators in Milestones, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, BESE, federal awarding agencies and pass-through entities and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor for the State of Louisiana as a public document.

Hienz & Macaluso, LLC

HIENZ & MACALUSO, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Metairie, LA
January 20, 2006

INNOVATORS IN MILESTONES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

We have audited the financial statements of Innovators in Milestones, Inc. as of and for the year ended June 30, 2005, and have issued our report thereon dated January 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits outlined in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Louisiana Governmental Auditing Guide. Our audit of the basic financial statements as of June 30, 2005 resulted in an unqualified opinion.

Section I – Summary of Auditor’s Results

- a. Report on Internal Control and Compliance Material to the Financial Statements:

Internal Control

Material Weakness ___Yes XNo Reportable Conditions ___Yes XNo

Compliance

Compliance Material to Financial Statements ___Yes XNo

- b. Federal awards:

Internal Control

Material Weakness ___Yes XNo Reportable Conditions ___Yes XNo

Type of Report on Compliance For Major Programs - Unqualified

Are their findings required to be reported in accordance with Circular A-133, Section .510(a)? ___Yes XNo

Was a management letter issued? ___Yes XNo

Identification of major program:CFDA #84.010–Name of federal program: Title 1

Dollar threshold used to distinguish between Type A/Type B programs: \$ 300,000

In the auditee a “low risk” auditee, as defined by OMB Circular A-133? NO

Section II – Financial Statement Findings and Questioned Costs

There were no financial statement findings or questioned costs for the year ended June 30, 2005.

INNOVATORS IN MILESTONES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

Section III – Federal Award Findings and Questions Costs

There were no federal award findings or questioned costs for the year ended June 30, 2005.

Section IV – Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 2005.

**INNOVATORS IN MILESTONES, INC.
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005**

Section I – Internal Control and Compliance Material to the Financial Statements:

Not applicable.

Section II – Internal Control and Compliance Material to Federal Awards:

Not applicable.

Section III - Management Letter:

Not applicable.

**INNOVATORS IN MILESTONES, INC.
MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2005**

Section I – Internal Control and Compliance Material to the Financial Statements:

There were no current or prior year findings.

Section II – Internal Control and Compliance Material to Federal Awards:

There were no current or prior year findings.

Section III - Management Letter:

A management letter was not issued in connection with the audit for the year ended June 30, 2005.

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**INNOVATORS IN MILESTONES, INC.
INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

FOR THE YEAR ENDED JUNE 30, 2005

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MEMBERS

American Institute of Certified Public Accountants
Society of Louisiana Certified Public Accountants

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors
Innovators in Milestones, Inc.

We have performed the procedures included in the *Louisiana Audit Guide* and enumerated below, which were agreed to by the management of Innovators in Milestones, Inc. (Milestone) and the Legislative Auditor, State of Louisiana, solely to assist users in evaluating management's assertions about the accompanying performance and statistical data and to determine whether the specified schedules are free of obvious errors and omissions as provided by the Board of Elementary and Secondary Education (BESE). This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings related to the accompanying schedules are as follows:

PROCEDURES AND FINDINGS

General Fund Instructional and Support Expenditures and Certain Local Revenue Sources (SCHEDULE I)

1. We selected a random sample of 25 transactions and reviewed supporting documentation to determine if the sampled expenditures/revenues are classified correctly and are reported in the proper amounts for each of the following reported on the schedule:
 - ❖ Total General Fund Instructional Expenditures;
 - ❖ Total General Fund Equipment Expenditures;
 - ❖ Total Taxation Revenues;
 - ❖ Total Local Earnings on Investment in Real Property;
 - ❖ Total State Revenue in Lieu of Taxes;

- ❖ Nonpublic Textbook Revenue; and
- ❖ Nonpublic Transportation Revenue.

We reviewed the supporting documentation for the selected transactions and determined that they were classified correctly and reported in the proper amounts on the appropriate schedule.

Education Levels of Public School Staff (SCHEDULE II)

2. We reconciled the total number of full-time classroom teachers per the schedule "Experience of Public Principals and Full-Time Classroom Teachers" (SCHEDULE IV) to the combined total number of full-time classroom teachers per this schedule and Milestone Academy of Learning Experiences and Skills, Inc.'s supporting payroll records as of October 1, 2004.

No differences were noted.

3. We reconciled the combined total of principals per the schedule "Experience of Public Principals and Full-Time Classroom Teachers" (SCHEDULE IV) to the combined total of principals and assistant principals per this schedule.

No differences were noted. Milestone had one principal and no assistant principals.

4. We obtained a list of full-time teachers, principals, and assistant principals by classification as of October 1, 2004 as reported on the schedule. We traced all 25 teachers to their respective personnel file and determined if their education level was properly classified on the schedule.

The individual's education level was properly reported.

Number and Type of Public Schools (SCHEDULE III)

5. Innovators in Milestones, Inc. only sponsored an elementary school (grades K-7), - as reported on the schedule. We compared the list of schools (only one school as reported in Schedule III) and grade levels as reported on the Title I Grants to Local Educational Agencies (CFDA 84.010) application and/or the National School Lunch Program (CFDA 10.555) application.

No differences were noted.

Experience of Public Principals and Full-Time Classroom Teachers (SCHEDULE IV)

6. We obtained a list of full-time teachers, principals, and assistant principals by classification as of October 1, 2004 and as reported on the schedule and traced the same sample used in procedure 4 to the individual's personnel file and determined if the individual's experience was properly classified on the schedule.

We noted no differences. The individual's experience was properly classified on the schedule.

Public School Staff Data (SCHEDULE V)

7. We obtained a listing of all classroom teachers including their base salary, extra compensation, and ROTC or rehired retiree status as well as full-time equivalent as reported on the schedule and traced all teachers to their personnel file and determined if their salary, extra compensation, and full-time equivalents were properly included on the schedule.

No differences noted.

8. For all 25 teachers, we recalculated the average salaries and full-time equivalents reported in the schedule.

No differences noted.

Class Size Characteristics (SCHEDULE VI)

9. We obtained a list of classes and class size for Milestone as reported on the schedule and reconciled school type classifications to Schedule III data, as obtained in procedure 5. We then traced a sample of ten classes to the October 1st roll books for those classes and determined if the class was properly classified in the schedule.

No differences were noted.

**Louisiana Educational Assessment Program (LEAP) for
The 21st Century (SCHEDULE VII)**

10. We obtained test scores as provided by the testing authority and reconciled scores as reported by the testing authority to scores reported in the schedule by Milestone.

No differences were noted.

The Graduation Exit Exam for the 21st Century (SCHEDULE VIII)

11. Because this schedule only applies to grades ten and eleven, we did not obtain test scores as provided by the testing authority or reconcile scores as reported by the testing authority to scores reported in the schedule by Milestone.

This schedule was not-applicable for Milestone because the school did not have grades ten or eleven for the year ended June 30, 2005.

The Iowa Tests (SCHEDULE IX)

12. We obtained test scores as provided by the testing authority and reconciled scores as reported by the testing authority to scores reported in the schedule by Milestone.

No differences were noted. Note that Milestone did not have grade 9 for the year ended June 30, 2005.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of management of Innovators in Milestones, Inc., the Louisiana Department of Education, the Louisiana Legislature, and the Legislative Auditor, State of Louisiana, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Hienz & Macaluso, LLC

Hienz & Macaluso, LLC

Metairie, LA

January 20, 2006

SCHEDULES REQUIRED BY STATE LAW

SCHEDULE I

- General Fund Instructional and Support Expenditures And Certain Local Revenue Sources

This schedule includes general fund instructional and equipment expenditures. It also contains local taxation revenue, earnings on investments, revenue in lieu of taxes, and nonpublic textbook and transportation revenue. This data is used either in the Minimum Foundation Program (MFP) formula or is presented annually in the MFP 70% Expenditure Requirement Report.

SCHEDULE II

- Education Levels of Public School Staff

This schedule includes the certificated and uncertificated number and percentage of full-time classroom teachers and the number and percentage of principals and assistant principals with less than a Bachelor's; Master's; Masters + 30; Specialist in Education; and Ph.D. or Ed.D. degrees. This data is currently reported to the Legislature in the Annual Financial and Statistical Report (AFSR).

SCHEDULE III

- Number and Type of Public Schools

This schedule includes the number of elementary, middle/junior high, secondary and combination schools in operation during the fiscal year. This data is currently reported to the Legislature in the AFSR.

SCHEDULE IV

- Experience of Public Principals and Full-Time Classroom Teachers

This schedule includes the number of years of experience in teaching for assistant principals, principals, and full-time classroom teachers. This data is currently reported to the Legislature in the AFSR.

SCHEDULE V

- Public School Staff Data

This schedule includes average classroom teacher salary using full-time equivalents, including and excluding ROTC and rehired retiree teachers. This data is currently reported to the Legislature in the AFSR.

SCHEDULES REQUIRED BY STATE LAW

SCHEDULE VI

- Class Size Characteristics

This schedule includes the percent and number of classes with student enrollment in the following ranges: 1-20; 21-26; 27-33; and 34+ students. This data is currently reported to the Legislature in the Annual School Report (ASR).

SCHEDULE VII

- Louisiana Educational Assessment Program (LEAP) For the 21st Century

This schedule represents student performance testing data and includes summary scores by district for grades 4 and 8 in each category tested. Scores are reported as Advanced, Proficient, Basic, Approaching Basic, and Unsatisfactory. This schedule includes three years of data.

SCHEDULE VIII

- The Graduation Exit Exam for the 21st Century

This schedule represents student performance testing data and includes summary scores by district for grades 10 and 11 in each category tested. Scores are reported as Advanced, Proficient, Basic, Approaching Basic, and Unsatisfactory. This schedule includes three years of data.

SCHEDULE IX

- The IOWA Tests

This schedule represents student performance testing data and includes a summary score for grades 3, 5, 6, 7 and 9 for each district. The summary score reported is the National Percentile Rank showing relative position or rank as compared to a large, representative sample of students in the same grade from the entire nation. This schedule includes three years of data.

Innovators in Milestones, Inc.						Schedule 1
Milestone SABIS Academy of New Orleans						
New Orleans, Louisiana						
General Fund Instructional and Support Expenditures and Certain Local Revenue Sources For the Year Ended June 30, 2005						
General Fund Instructional and Equipment Expenditures						
General Fund Instructional Expenditures:						
Teacher and Student Interaction Activities:						
	Classroom Teacher Salaries				\$610,542	
	Other Instructional Staff Salaries				\$49,954	
	Employee Benefits				\$110,858	
	Purchased Professional and Technical Services:				\$151,749	
	Instructional Materials and Supplies				\$175,903	
	Instructional Equipment				\$1,000	
	Total Teacher and Student Interaction Activities					\$1,100,007
	Other Instructional Activities				\$5,195	\$5,195
	Pupil Support Activities				\$116,551	
	Less: Equipment for Pupil Support Activities					
	Net Pupil Support Activities					\$116,551
	Instructional Staff Services				\$64,229	
	Less: Equipment for Instructional Staff Services					
	Net Instructional Staff Services					\$64,229
	Total General Fund Instructional Expenditures					\$1,285,981
	Total General Fund Equipment Expenditures				\$15,674	
Certain Local Revenue Sources						
Local Taxation Revenue:						
	Constitutional Ad Valorem Taxes				0	
	Renewable Ad Valorem Tax				0	
	Debt Service Ad Valorem Tax				0	
	Up to 1% of Collections by the Sheriff on Taxes Other than School Taxes				0	
	Sales and Use Taxes				0	
	Total Location Taxation Revenue					
Local Earnings on Investment in Real Property:						
	Earnings from 16th Section Property				0	
	Earnings from Other Real Property				0	
	Total Local Earnings on Investment in Real Property					
State Revenue in Lieu of Taxes:						
	Revenue Sharing-Constitutional Tax				0	
	Revenue Sharing-Other Taxes				0	
	Revenue Sharing-Excess Portion				0	
	Other Revenue in Lieu of Taxes				0	
	Total State Revenue in Lieu of Taxes					
	Nonpublic Textbook Revenue				0	
	Nonpublic Transportation Revenue				0	

Innovators in Milestones, Inc							Schedule 3
Milestone SABIS Academy							
New Orleans, LA							
Number and Type of Public Schools For the Year Ended June 30, 2005							
Type		Number					
Elementary							
Middle/Jr. High							
Charter School Elementary		1					
Secondary							
Combination							
Total		1					

Innovators in Milestones, Inc.							Schedule 4
Milestone SABIS Academy of New Orleans							
New Orleans, LA							
Experience of Public Principals and Full-Time Classroom Teachers							
As of October 1, 2004							
Assistant Principals	0-1 Yr	2-3 Yrs	4-10 Yrs	11-14 Yrs	15-19 Yrs	20-24 Yrs	Total
Principals			1				0
Classroom Teachers	4	4	7	2		1	1
Total	4	4	8	2	0	1	26

Innovators in Milestones, Inc.						Schedule 9
Milestone SABIS Academy of New Orleans New Orleans, LA						
The IOWA Tests For the Year Ended June 30, 2005						
	Composite					
	2005	2004	2003			
Test of Basic Skills (ITBS)						
Grade 3	24	26				
Grade 5	47	35				
Grade 6	33	24				
Grade 7	33	31				
Tests of Educational Development (ITED) Grade 9						